

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 L-03 DRC-01 FEA-01 AGR-10 CEA-01

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TAGS: EFIN, EIND, EINV, PE

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

1. INVESTMENT CLIMATE:

A. PUBLICLY, THE GOVERNMENT OF PERU WELCOMES DIRECT PRIVATE FOREIGN INVESTMENT. PROSPECTIVE INVESTORS, HOWEVER, ARE FACED WITH A SERIES OF FACTS WHICH SHOULD BE CAREFULLY STUDIED BEFORE A FINAL INVESTMENT DECISION IS MADE. PRIVATE FOREIGN DIRECT INVESTMENT MUST COMPLY WITH THE ANDEAN PACT REGULATIONS WHICH ARE NOW A PART OF PERUVIAN LAW. PERU IS PROBABLY THE COUNTRY WHICH MOST CLOSELY ADHERES TO SUCH REGULATIONS WHICH CONTROL THE AMOUNTS OF PROFITS WHICH MAY BE TRANSFERRED ABROAD, THE PAYMENT OF ROYALTIES AND LICENSE FEES TO FOREIGN FIRMS, THE TERMS OF CONTRACTS CONCERNING LICENSES AND THE TRANSFER OF TECHNOLOGY, THE PARTICIPATION OF LOCAL INVESTORS, THE REINVESTMENT OF CAPITAL, AND IN GENERAL PROVIDE A VERY CLOSELY CONTROLLED ENVIRONMENT FOR FOREIGN INVESTORS.

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B. IN ADDITION, THE GOVERNMENT DIRECTLY CONTROLS ALL FACETS OF FOREIGN TRADE. IT ADMINISTERS A SYSTEM OF IMPORT QUOTAS. IMPORTS ARE SUBJECT TO SUSPENSION IF LOCAL FIRMS CLAIM THAT THEY PRODUCE GOODS COMPARABLE IN QUALITY. THE IMPORTER MUST CONVINCE THE GOVERNMENT THAT HE SHOULD BE ALLOWED TO IMPORT CERTAIN GOODS DESPITE LOCAL PRODUCTION. A VERY STRICT FOREIGN EXCHANGE CONTROL SYSTEM IS SUPERIMPOSED ON IMPORT CONTROLS. AT TIMES, FOREIGN INVESTORS ARE UNABLE TO OBTAIN AUTHORITY TO TRANSFER FOREIGN EXCHANGE EVEN WHEN THEY HAVE COMPLIED WITH ALL OTHER GOVERNMENT REQUIREMENTS REGULATING FOREIGN INVESTMENT.

C. INVESTORS ARE ALSO FACED WITH A SERIES OF GOVERNMENT ECONOMIC POLICIES WHICH ARE STEADILY ENCROACHING ON THE PRIVATE SECTOR. MANUFACTURING OPERATIONS MUST DISTRIBUTE PART OF THEIR PROFITS TO THE WORKERS, PARTLY IN CASH AND PARTLY IN SHARES OF THE ENTERPRISE. THIS TRANSFER OF EQUITY CONTINUES UNTIL THE WORKERS OWN 50 PERCENT OF THE SHARES OF THE FIRM. THIS IS CALLED THE "INDUSTRIAL COMMUNITY". IN ADDITION, THE GOVERNMENT HAS INITIATED A NEW TYPE OF ENTERPRISE CALLED "SOCIAL PROPERTY" WHICH, WHEN IT BEGINS OPERATIONS, WILL PROVIDE DIRECT COMPETITION WITH SIMILAR ENTERPRISES IN THE PRIVATE SECTOR. DUE TO THE IMPORTANT ADVANTAGES THE PUBLIC SECTOR ENTERPRISES RECEIVE CONCERNING GOVERNMENT PURCHASES, CREDIT, FINANCING, ETC., PRIVATELY-OWNED ENTERPRISES WILL FACE EXTREMELY SERIOUS COMPETITION FROM THESE NEW ENTERPRISES. THE GOVERNMENT CAN ALSO TAKE OVER ANY ACTIVITY CLASSIFIED AS A BASIC INDUSTRY. DIRECT CONTROL OF NATURAL RESOURCES IS A STATED POLICY OF THE GOVERNMENT AS IS THE NATIONALIZATION OF ALL BANKS, INSURANCE COMPANIES, AND PETROLEUM ACTIVITIES.

D. THUS, FOREIGN INVESTORS MUST DEAL WITH GOVERNMENT OFFICIALS ON PRACTICALLY ALL PHASES OF THEIR OPERATIONS IN PERU. THE EFFICIENCY OF GOVERNMENT BUREAUCRACY HAS NOT GROWN IN STEP WITH THE INCREASE IN GOVERNMENT CONTROLS. FOREIGN INVESTORS, AS WELL AS LOCAL INVESTORS, ARE FACED WITH THE DISCOURAGING FACT THAT INCREASING AMOUNTS OF TIME AND EFFORT MUST BE SPENT DEALING WITH A LARGE AND INEFFICIENT GOVERNMENT BUREAUCRACY.

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2. U.S. DIRECT INVESTMENT. DATA IN "SURVEY OF CURRENT BUSINESS".

3. DIRECT INVESTMENT BY ALL COUNTRIES. NOT AVAILABLE.

4. DIRECT INVESTMENT IN U.S. BY PERUVIANS. NEGLIGIBLE.

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